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Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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China: Improving Economic Performance

Summary

The Chinese economy clearly is in better shape today than it was just a few years ago. Improvements are particularly evident in personal consumption and in agriculture. There is a growing orderliness and direction in economic policy making. The groundwork has been laid for closer economic relations with the West and China is now poised to resume its drive to obtain foreign technology. [redacted]

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Reforms over the past five years are altering fundamental economic relationships between the state, the firm, and the individual. Rapid economic growth, however, has laid bare the need for a further reform--restructuring the price system. Irrational pricing is mainly responsible for the many other difficulties that plague the Chinese economy--supply shortages, wasteful use of energy and other resources, poor output quality, burgeoning capital costs, diffusion of investment funds, growing subsidies, and diminishing profits. Irrational prices and an overvalued exchange rate also hamper China's integration into the world economy. [redacted]

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National Income and Output

China's economy had another good year in 1983, as both agriculture and industry continued to prosper. Our preliminary estimate is that national income grew by 7 percent (see figure 1). [redacted]

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This memorandum was produced by [redacted] of the China Division of the Office of East Asian Analysis in response to a Treasury Department request. Questions and comments are welcome and may be addressed to the author [redacted]

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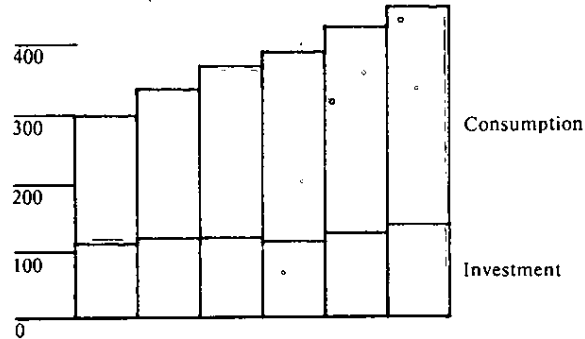
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Figure 1
China: Economic Performance

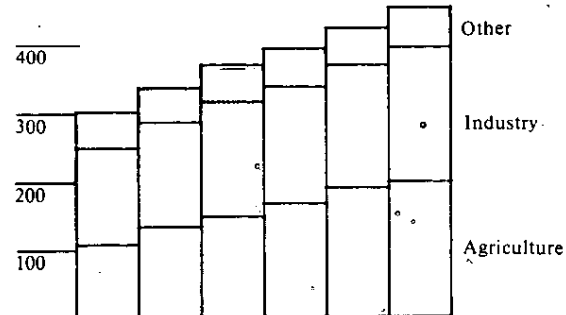
Billion Yuan

Income and Output

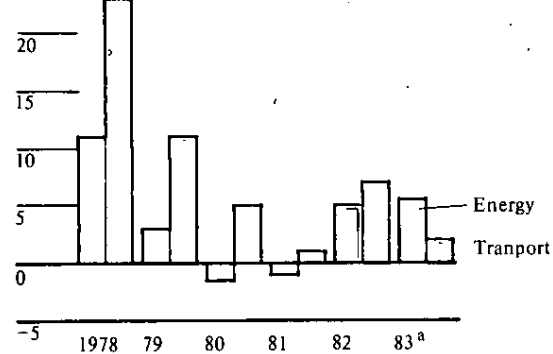
National Income Available



National Income Produced



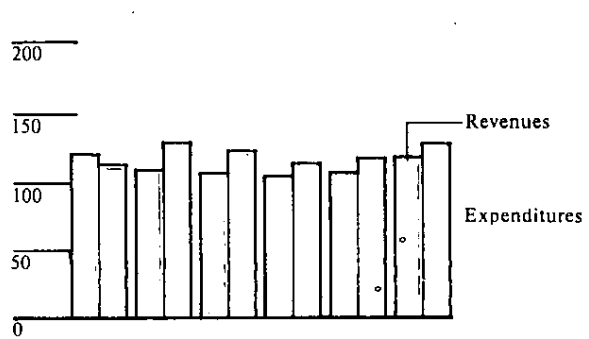
Bottleneck Industries (Annual Percent Change)



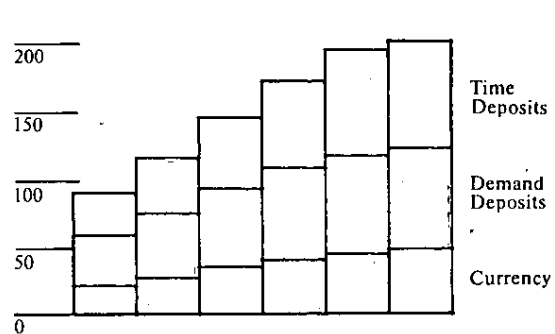
^a Preliminary estimate.

Finances

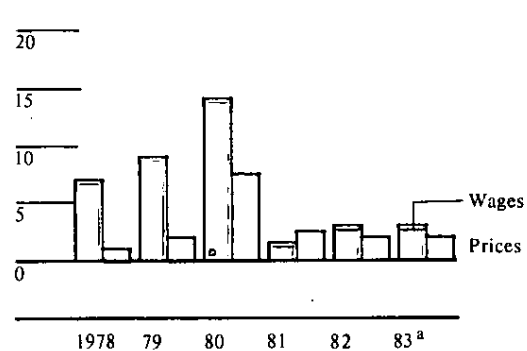
The State Budget



Money Supply



Wages and Prices (Annual Percent Change)



The gross value of agricultural output increased almost 5 percent in real terms, mainly a reflection of three factors. First, higher procurement prices for agricultural products provided increased incentives both to state run farms and collectives. Second, the dismantling of communes and expansion in household farming have given peasants a profit motive to increase production. Finally, weather has been very favorable for the past three years, permitting bumper crops of grain and cotton. [] 25X1

Industrial growth--at 10 percent--was twice that called for in the annual plan, as output from both light and heavy industry exceeded their targets. The resurgence of heavy industry, however, was worrisome to China's planners. Since 1979, the Chinese have attempted to curtail its growth in order to promote light industry and agriculture. Rapid growth of heavy industry continued to drain scarce energy resources from the priority sectors and to exacerbate other existing bottlenecks. [] 25X1

Beijing attaches highest priority to developing China's economic infrastructure, the biggest constraint on future growth. China has had to run the energy and transport sectors at full throttle merely to keep pace with domestic demand. The energy sector performed well last year for the second year in a row. Energy output rose more than 5 percent overall (see tabulation). But freight carried by the transport sector increased only 2 percent, reflecting an overburdened and antiquated rail, highway, and shipping network. While China has been able to obtain some short-term gains, heavy exploitation of these sectors has resulted in a rapid depletion of capital. [] 25X1

China: Selected Domestic Economic Indicators

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	1980	1981	1982	1983*
National Income (bil yuan)	368.6	388.7	425.4	454.7
Investment (bil yuan)	116.5	110.6	123.3	135.6
Retail Sales (bil yuan)	214.0	235.0	257.0	282.7
Agricultural Output (bilyuan)	146.7	165.8	189.3	198.2
Grain (mil tons)	320.6	325.0	353.4	370.0
Cotton (mil tons)	2.7	3.0	3.6	4.0
Industrial Output (bil yuan)	168.8	170.9	179.2	197.5
Steel (mil tons)	37.1	35.6	37.2	40.0
Energy Production (mil tons coal equiv)	637.2	632.2	667.7	701.5
Crude Oil (mil b/d)	2.1	2.0	2.0	2.1
Coal (mil tons)	620	622	666	700
State Budget (bil yuan)				
Revenues	104.2	101.7	104.0	116.2
Expenditures	121.3	111.5	115.3	126.2
Deficit	17.1	9.8	11.3	10.0

*Preliminary

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Last year Beijing had little success reining in investment spending, which we estimate increased at least 10 percent. Nevertheless, in the five years since Beijing announced its readjustment policies, investment spending has dropped from 35 percent of national income to less than 30 percent. As a result, consumption, and the Chinese standard of living, has improved remarkably. [REDACTED]

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We estimate that in nominal terms consumer spending increased about 6 percent last year, roughly the same growth rate as incomes of urban workers. Rural incomes increased 10 percent, but a sizable share of the increase has gone into savings, not consumption. We do not know precisely how large these gains were in real terms because there are no accurate price indexes for the Chinese economy. Nevertheless, if the official Chinese consumer price index is used as a guide¹, the real increase in consumption would have amounted to about 4 percent last year. [REDACTED]

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State Finance

Stabilization and retrenchment measures were introduced by Beijing in late 1980, when symptoms of overheating had become apparent following two years of all-out economic growth. The rapid and simultaneous expansion of consumption and investment had led to increasing pressures on resources, resulting in unusually rapid price increases, a substantial budget deficit, an unanticipated increase in the money supply, and a widening current account deficit in the balance of payments. [REDACTED]

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Beijing's corrective efforts in 1981 centered on a sharp cut in investment, in part designed to strengthen public finances, and a reduction in the rate of economic growth to a more sustainable level. Initially, this policy succeeded. Fixed investment financed by the state budget dropped by 10 billion yuan in 1981, reducing the deficit substantially. On the other hand, extrabudgetary investment--that undertaken by state enterprises out of retained earnings and by local enterprises--fell only slightly. The economy continued to overheat. [REDACTED]

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In the last two years, output has grown impressively and, consequently, so have state revenues from industrial and commercial taxes. On the other hand, state revenues from enterprise profits have declined. There are two reasons for this. First, with the progressive decentralization of decisionmaking in China, Beijing is beginning to replace the system of profit remittances with a system of profit taxation. Second, enterprise profits have fallen because of rising costs,

¹ The official consumer price index probably understates the true price increase. [REDACTED]

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the result of increasing shortages of industrial inputs and cost overruns for investment construction. [REDACTED]

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State expenditures have also crept upward since 1981. The main problem has not been appropriations for state enterprises: the central government's contributions to enterprises have declined in direct proportion to the reduction in profit remittances by enterprises to the government. Instead, most of the increase in government expenditures resulted from the increased level of subsidies, particularly for essential consumer goods. These subsidies have jumped primarily because the boost in procurement prices for agricultural products was not matched by concomittant increases in retail prices. Subsidies for foreign trade also took a leap forward in 1983, rising from 2.8 billion yuan in 1982 to 11 billion last year. The foreign trade subsidy results from overvaluation of the yuan and the massive trade surplus. Even when foreign exchange earnings are converted to Renminbi (RMB) at the relatively devalued "internal settlement" rate, RMB earnings from exports generally are not sufficient to cover production costs. In addition, RMB earnings from the sale of imports on the domestic market have traditionally offset the subsidy to exports, but with imports scaled back this no longer is the case.² Controlling the level of subsidies will remain a major problem as long as prices do not reflect true scarcity relationships. [REDACTED]

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The cumulative state budget deficit from 1979 to 1982 amounted to 59 billion yuan. Most of this was financed by resorting to the printing press: during the same period currency in circulation increased by 58 billion yuan while Ministry of Finance borrowings totaled only 24 billion yuan. Having experienced hyperinflation in the late 1940s, most Chinese officials have been seriously alarmed by the rate of growth in the money supply. [REDACTED]

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The monetary authorities believe the two chief causes of this growth have been wage payments and agricultural procurement costs. Wage rates have not increased substantially since 1980, however, the total wage bill has risen as a result of increased output, higher employment, and the spread of worker bonuses. Moreover, higher agricultural procurement prices and record harvests have driven up payments to the rural sector. [REDACTED]

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The government has tried to soak up excess currency by increasing retail sales of consumer goods. While the growth of retail sales has been excellent, it has not kept individual savings deposits from also growing at a rapid rate (see figure 1). If the populace should choose to draw down their savings to

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increase consumption, they could fuel a major round of inflation. [redacted]

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Balance of Payments

China's central planners have attempted to prevent domestic economic pressures from causing excess demand for foreign goods. Nevertheless, domestic economic developments are transmitted, at least partially, to the foreign sector after some lag. Hence, China's balance of payments has reflected Beijing's shifting national economic policies. Current account surpluses during 1976-78 gave way to deficits in 1979 and 1980, as deliveries began on the \$10 billion worth of complete plants and equipment China had ordered in 1978. Readjustment policies favoring light industry and agriculture--announced in early 1979--did not affect China's current account until 1981, when imports of capital equipment and industrial supplies began to subside. While the domestic economic recovery has been under way since 1982, imports began to pick up only in mid-1983. Continuing export expansion and restraints on imports have given the Chinese three consecutive years of record trade and current account surpluses (see figure 2). [redacted]

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Although the rate of growth for services has outpaced that of merchandise trade, expenditures have generally exceeded earnings. Last year payments for industrial know-how, production licenses, technical services, and various forms of consultancy increased dramatically. While data are difficult to obtain, we believe payments for such invisibles may have reached \$2 billion in 1983. The Chinese are making a major effort to turn the deficit on services into a surplus by expanding their international merchant fleet, improving tourist facilities, and boosting foreign sales of construction labor services. In addition, interest earnings on China's foreign exchange holdings have climbed sharply (see table 1). [redacted]

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Proceeds from the current account surplus have been used to lift foreign exchange reserves to record levels and to reduce foreign commercial debt. Foreign exchange reserves, excluding gold³, probably exceeded \$16 billion by yearend 1983, while China's total foreign debt stood at \$6 billion. For the past two years Beijing has restructured its foreign debt by reducing interbank borrowings and taking on long-term low interest loans from the World Bank, Japan's Overseas Economic Cooperation Fund (OECF), and other official sources (see table 2). Last year China prepaid its first credit tranche drawing from the IMF one year ahead of schedule, as well as almost \$1 billion in commercial debt. In 1984 debt servicing should amount to less than 5 percent of China export earnings. [redacted]

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3. Declared gold reserves amount to 12.7 million ounces, worth \$4.8 billion at current market prices. [redacted]

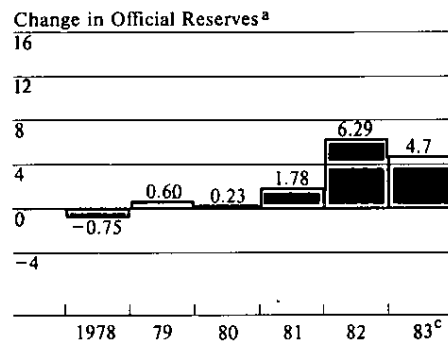
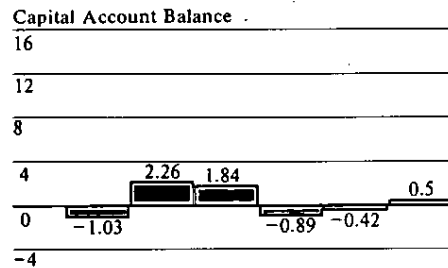
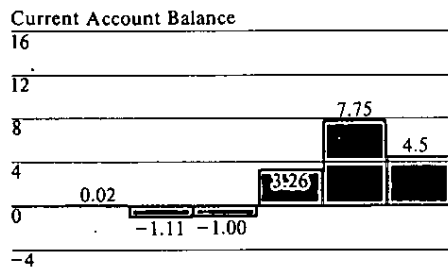
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Figure 2
China: International Finances

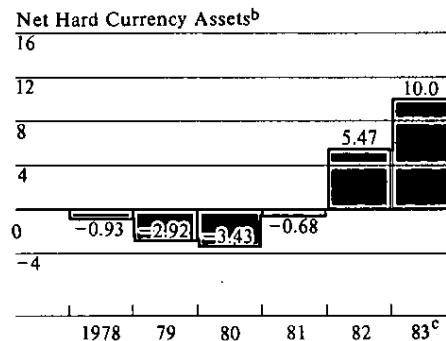
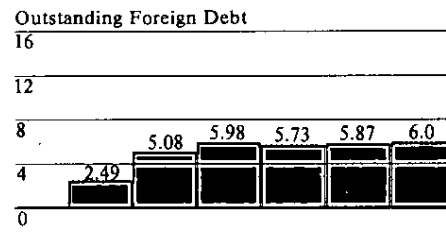
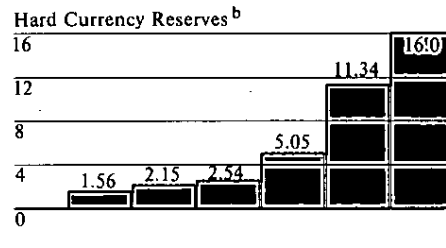
Billion US \$

Balance of Payment Flows (During Year)



^a Excludes international gold transactions. Negative indicates decrease.

International Financial Stocks (End of Year)



^b Excludes gold holdings, payments agreements assets, and "soft" loan assets.

^c Figures for 1983 are preliminary estimates.

China's change in status from a net debtor to a creditor stems both from Beijing's readjustment policy and from stringent foreign exchange control measures established in early 1981. The decline in imports of capital goods mainly reflects reductions in investment in heavy industry. State budget deficits have reinforced the cutbacks in imports: in some cases domestic funds have not been sufficient to pay for the local costs of imported plants. Domestic buildups in inventories of steel, cotton, and synthetic fabrics also contributed to the decline in imports.

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Central regulations controlling foreign exchange have added to the growing trade surplus. In January 1981 Beijing established an "internal settlement" rate of 2.8 yuan per dollar to be used solely for transactions between the Bank of China and domestic entities. This rate is more favorable than the official exchange rate⁴, and hence, encourages exports and discourages imports. In addition, foreign exchange controls require all domestic enterprises to deposit their foreign earnings with the Bank of China rather than in foreign banks. These controls further require that hard currency loans to enterprises be repaid in hard currency. Imports by Chinese firms are thus largely limited by the value of their own foreign exchange earnings; surplus foreign exchange can be sold to other enterprises, but in the absence of developed capital or foreign exchange markets the regulations help assure a trade surplus. Although the Chinese began to relax their capital controls in 1983, particularly on remittances of foreign partners in joint ventures, they still have far to go.

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Foreign Trade

Deng Xiaoping, Zhao Ziyang, Chen Muhua and other Chinese officials have repeatedly reaffirmed China's commitment to open-door trade policies, despite their support for the "campaign to eliminate spiritual pollution," a campaign which on the surface appears to be a direct attack on the cultural influences that have resulted from increasing contacts with the West. While warning against the potential dangers of capitalist influence, the leadership has indicated it will continue to vigorously expand foreign trade and to emphasize foreign investment and the import of foreign technology.

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For the second consecutive year, recession and increasing protectionism in the developed West have slowed the growth of China's exports. Exports totaled \$24 billion in 1983, up only 2 percent from the level of 1982. This is far below the 25 to 30-percent annual growth rates achieved from 1978 to 1981. To compensate for declining exports to the developed West, Beijing

⁴ The official exchange rate is used for transactions between the Bank of China and foreigners. It currently floats at a rate of about 2 yuan per dollar.

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has tried to open up new markets in the Middle East, Eastern Europe, and the Soviet Union. In each of the last two years, China has delivered over \$1 billion in arms to Iraq and Iran..

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[redacted] In Eastern Europe and the USSR, the Chinese have found trade partners that are eager to obtain cheap textiles and consumer goods that have been restricted in the West. Trade with the Communist bloc increased at least 50 percent in 1983 and will probably increase another 50 percent this year. [redacted]

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Domestic shortages and weak foreign demand have hampered Chinese exports to the developed countries. Exports of agricultural commodities, petroleum, and other raw materials have stagnated or declined, because of increasing demands in China and decreasing prices abroad. Petroleum exports dropped to \$4.2 billion last year, reflecting price cuts of almost 15 percent. The Chinese have attempted to increase export earnings from their manufactures by moving into higher value added lines. Partly, this has been in response to volume quotas and other quantitative restrictions on imports from China in the West, which force the Chinese to export better quality, higher priced goods than they otherwise would. But the Chinese are also trying to increase their gains from trade by moving into exports that reflect their comparative advantage in labor-intensive products. By branching into industries that require intensive use of manual labor, they hope to absorb some of the large number of unemployed into the workforce. Disguised unemployment among the urban labor force of 113 million people probably is much larger than the official unemployment figure of 2.6 percent reported at the end of June 1983. [redacted]

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Last year imports rose almost 11 percent to \$18.5 billion, after bottoming out in 1982. In contrast to 1982, when foodstuffs--chiefly grain and sugar--were the only major category of imports to increase, last year China significantly stepped up imports of industrial supplies and capital goods. Grain imports, on the other hand, dropped from 15 million tons to 13 million, in part because of increasing supplies at home.⁵ US sales dropped from 8.5 million tons in 1982 to 3.8 million last year as China stopped purchasing from the United States and switched to other suppliers--Argentina and Canada--during the dispute over US restrictions on imports of Chinese textiles. [redacted]

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Imports of most industrial supplies picked up substantially in 1983, reflecting the increase in domestic economic activity and growing domestic shortages. Steel imports nearly doubled to 10 million metric tons as China surpassed the United States as Japan's number one customer. Imports of copper, aluminum, nickel and zinc also showed substantial gains. Record imports of logs

⁵ China's domestic crop reached 380 million tons--a 27-million-ton increase over 1982. [redacted]

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and plywood reflected the speedup in Chinese construction activities. Cotton and synthetic textile fiber imports continued to slump, however, as domestic output and inventories climbed. The United States was one of the few countries that did not benefit from China's increased purchases of industrial supplies, perhaps the result of an exceptionally strong US dollar. [REDACTED]

Recovery of investment in China has resulted in a resurgence of capital equipment imports, which increased to well over \$4 billion last year, up 10 to 20 percent over 1982. Transportation equipment, especially, had a banner year, and this resulted in an upturn in US sales of aircraft and trucks. US exports of computers, telecommunications equipment, machine tools, electronic medical equipment, and heavy construction equipment also benefitted. Associated with the jump in capital equipment purchases has been a Chinese push to obtain pure technology. In the past year the Chinese purchased know-how in such diverse areas as: tree cultivation, insecticide chemistry, water control, food preservation, coal excavation and gasification, building materials research, iron ore dressing, large integrated circuits, cargo handling, birth control, disease treatment, environmental protection, and energy conservation. [REDACTED]

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Foreign Investment

Beijing's past progress in attracting foreign investment has been slow, in part, because of an uncertain commitment among Chinese leaders and planners on the extent of incentives that should be offered to foreign companies. Other obstacles included China's inexperience, its need to develop credibility in relationships with foreign businessmen, its lack of adequate infrastructure, problems with labor productivity and wages, and the lack of detailed regulations on taxes and remittance of profits. [REDACTED]

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Last year, however, Beijing made a range of concessions in a bid to gain foreign participation in modernizing the economy. Scores of new laws have been released to attract or protect the foreign investor. In September, China issued regulations to clarify its 1979 Joint Venture law. The rules offered longer tax holidays, increased opportunities to sell the output of the venture in the domestic Chinese market, and more decision-making autonomy for the venture. Early this year China introduced new tax rules that exempt joint ventures from import duties and abolish certain industrial taxes on ventures that import advanced machinery and technology. Later this year the National People's Congress is slated to pass laws approved by the State Council that will clarify the legal status of totally foreign owned companies in China. [REDACTED]

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At the end of 1983 there were approximately 150 "equity" and 500 "contractual" joint ventures in China.⁶ We estimate that at yearend 1983, total paid-in foreign investment amounted to approximately \$1.2 billion. Of that total about \$380 million is located in the four Special Economic Zones, with the bulk in Shenzhen, on the Hong Kong border. [redacted]

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As of this past November, American investors had spent \$406 million on 23 joint project in China. There were 16 equity joint ventures involving \$91 million, one \$10 million cooperative management project, and five agreements for joint exploitation of offshore oil worth a total of more than \$304 million. The three largest non-oil Sino-American joint ventures are the Great Wall Hotel with capital assets of \$35 million, the Jianguo Hotel with assets of \$11 million, and American Motors' Beijing Jeep Corporation with \$16 million in assets. [redacted]

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China's competitive offshore leasing program got under way last year with signings of exploration and development contracts by 27 foreign oil companies, including 10 US firms. Drilling will begin this year on most of the blocks, which are located in the Yellow and South China Seas. The foreign companies will sink at least \$500 million into these wells within the next three years. [redacted]

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Exploration work continued last year in offshore areas previously leased to Japanese, French, and US firms. The Japanese have had success exploring in the Bohai and will probably soon begin development of at least one field. Atlantic Richfield may have found a commercially viable natural gas field in its concession south of Hainan, but the discovery was marred

⁶ From a Western viewpoint, both forms of joint ventures are considered direct foreign investment. Other forms of business arrangements, such as processing and compensation agreements, are not treated as foreign investment since no foreign claims on real assets located in China exists. The Chinese, however, use the term "foreign investment" loosely to refer to all forms of foreign participation, even including loans to Chinese enterprises. The Chinese appear to use the term "cooperative production agreement" synonymously with contractual joint venture. From a Chinese legal viewpoint there are three chief distinctions between contractual and equity joint ventures. Equity joint ventures:

- (1) fall under the Joint Venture Tax law (a flat 33 percent tax), whereas contractual ventures are taxed on a graduated basis under the Foreign Enterprise Income Tax;
- (2) share profits in proportion to equity participation, whereas contractual joint ventures share profits according to a ratio agreed to in the contract;
- (3) form new legal entities with their own boards of directors, whereas contractual joint ventures are managed directly by their parent corporations. [redacted]

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by the subsequent loss of the drill ship--and its 80-member American and Chinese crew--in an October typhoon. []

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The Chinese have also signed preliminary agreements with foreign investors for the Guangdong nuclear power plant and for development of the Pingsuo open pit coal mine. Difficult issues must be worked out before any final contracts are signed, however, and there is no assurance of success. Either deal could result in large sales to China by US firms. []

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Foreign Debt

The Chinese have used very little of the \$27 billion in commercial and government-supported credit lines they arranged in 1979 (see table 2). Fiscal conservatism and cutbacks in capital expenditures, rather than the previous ideological aversion to foreign debt, have left little need for these loans. []

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China's current outstanding debt of \$6 billion is a mixture of commercial and official loans, with a wide range of maturities. For the past two years commercial borrowing has been cut back sharply and it now accounts for less than half of total debt. China now seeks only concessionary loans and will avoid incurring commercial debt for all but short-term trade financing. []

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During 1983 Beijing and Tokyo concluded an agreement extending an additional \$2 billion in Overseas Economic Cooperation Fund loans to cover seven major development projects in China, including three ports, two railroads, a hydroelectric power station, and the Tianjin-Shanghai-Guangzhou telephone network. The loans can be drawn over the next five years, carry a 3.5-percent interest rate, and allow repayments over 20 years, following a 10-year grace period. The Chinese have also obtained commitments for over \$1.1 billion from the World Bank, half of which is to come from IDA reflows. Funds have also been received from the UN's Development Program and Food and Agricultural Organization. While these funds might appear at first glance to "crowd out" commercial lending, this probably is not the case, since most of the projects covered by them would not be commercially viable. []

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Table 1
CHINA: BALANCE OF PAYMENTS¹

	(million of U.S. dollars)				
	1978	1979	1980	1981	1982
CURRENT ACCOUNT	24	-1,113	-999	3,260	7,744
TRADE BALANCE ²	-161	-906	-305	3,547	6,868
Exports, f.o.b.	10,170	13,458	18,875	21,496	23,503
Imports, f.o.b.	-10,331	-14,364	-19,180	-17,949	-16,625
SERVICES, NET	-343	-833	-1,264	-862	405
Earnings, total	1,028	1,736	2,472	3,205	3,618
Freight and Insurance ³	245	416	680	1,103	986
Passenger Services	13	33	106	113	140
Port dues, ship chandlery	180	316	385	422	389
Travel receipts	241	413	511	672	703
Reinvested earnings on direct investment abroad ⁴	32	43	63	75	105
Bank interest and charges	200	305	512	697	998
Labor income and other services	117	210	215	123	297
Expenditures total	-1,371	-2,569	-3,736	-4,067	-3,213
Freight and Insurance ³	-623	-938	-1,253	-1,357	-1,100
Passenger services and travel abroad ⁵	-6	-12	-35	-69	-66
Port dues, ship chandlery	-227	-376	-556	-710	-612
Reinvested earnings on direct investment in China ⁶	0	0	-9	-28	-38
Bank interest and charges	-215	-350	-612	-821	-641
Labor expenses, other services and transfers	-96	-316	-272	-376	-544
Technology payments ⁷	-204	-577	-989	-706	-212
UNREQUITED TRANSFERS, NET	528	626	570	575	471
Credits, total	597	656	689	640	659
Remittances of overseas Chinese	597	656	668	484	544
Disaster relief from international organizations	0	0	21	156	115
Debits, total	-69	-30	-119	-65	-188
Remittances of foreigners, plant cancellation fees	0	0	-28	-20	-14
Chinese foreign aid	-69	-30	-91	-48	-174
CAPITAL ACCOUNT, EXCLUDING RESERVES	-1,027	2,265	1,841	-894	-416
LONG TERM CAPITAL, NET ⁸	-786	711	1,773	65	-360
Direct Investment Abroad	-57	-68	-98	-93	-430
Equity capital	-25	-25	-35	-18	-325
Reinvestment of earnings abroad	-32	-43	-63	-75	-105
Direct Investment in China	0	0	101	311	422
Equity capital	0	0	92	283	384
Reinvestment of earnings in China	0	0	9	28	38
Portfolio investment in public sector bonds ⁹	0	0	0	-9	20
Foreign bond purchases ⁹	0	0	0	-9	-20
Chinese bond floatations	0	0	0	0	40
Drawings on loans received	506	1,862	2,928	1,776	1,894
Government-to-government loans ¹⁰	0	0	11	19	333
Energy loans from Japan Ex-Im Bank	0	0	435	460	225
Buyers credits ¹¹	0	36	106	207	335
Supplier credits ¹¹	506	496	539	177	886
Processing and compensation arrangements ¹³	0	0	294	85	106
BOC borrowings from foreign banks .....	...	1,330	349	44	0
Non-BOC borrowings from foreign banks ¹⁴	0	0	195	125	55
Non-resident deposits with BOC, net ¹⁵	0	0	999	288	-46
IMF Trust Fund loan	0	0	0	379	0
Repayment of loans received	-405	-539	-948	-1,670	-1,755
Buyers credits	0	0	0	-9	-42
Supplier credits	-405	-509	-680	-621	-519
Processing and compensation arrangements	0	0	-57	-66	-59
BOC borrowings from foreign banks .....	...	...	-201	-844	-1,089
Non-BOC borrowings from foreign banks	0	0	0	-120	-97
Settlement of blocked U.S. assets, other transfers	0	-30	-10	-10	-65
Drawings on loans extended ¹⁶	-900	-613	-253	-284	-413
Repayment of loans extended ¹⁶	70	69	35	34	18
SHORT-TERM CAPITAL, NET ⁸	-241	1,554	76	-959	-56
Supplier credits received (Drawings net of repayments)	-35	447	174	121	177
Supplier credits extended (Drawings net of repayments) .....	...	...	-156	-652	-318
Bilateral Payment Agreements Assets (Net change)	-379	-127	-80	110	56
Short-term Bank Borrowings (Net)	173	1,234	138	-528	43
RESERVES ¹⁷	748	-603	-226	-1,782	-6,294
MONETARY GOLD ¹⁸	-40	-6	19	55	25
Total change in holdings .....	...	...	...	...	...
Counterpart to demonitization of gold	0	0	0	-5	0
Counterpart to valuation changes	-40	-6	19	60	25
SPECIAL DRAWING RIGHTS	0	0	54	-41	61
Total change in holdings	0	0	-92	-183	61
Counterpart to allocation of SDRs	0	0	146	142	0
RESERVE POSITION IN IMF	0	0	-191	191	0
USE OF IMF CREDIT	0	0	0	524	-28
Total	0	0	0	524	0
Counterpart to valuation changes	0	0	0	0	-28
FOREIGN EXCHANGE ASSETS	788	-597	-108	-2,511	-6,352
NET ERRORS AND OMISSIONS	255	-549	-616	-584	-1,033

(Notes: Ellipsis marks (...) indicate no data were available for that year. Net transactions, if any, are included under net errors and omissions).

Notes to Table 1

- 1/ With some significant exceptions, noted below, most of the individual line items in this presentation are obtained from the IMF staff reports on the 1982 and 1983 Article IV consultations with China, and their annexes. A major conceptual difficulty in preparing a balance of payments for China is the lack of a clear demarcation between the monetary and nonmonetary authorities. In keeping with standard IMF methodology, the Fund has excluded changes in assets and liabilities of foreign branches of the Bank of China from its data. External gold transactions by the Bank of China are totally missing, in part, for this reason (see footnote 18 below). Similarly, no clear distinction is possible between state and private transactions. Economic reforms of the past four years have created both a large semi-official sector and a small but growing private sector for which the central government no longer considers itself financially liable. [REDACTED] 25X1
- 2/ The trade data in this presentation are estimated from the statistics of China's trade partners. [REDACTED] 25X1
[REDACTED] 25X1
[REDACTED] There are significant discrepancies between Chinese data, compiled by the Ministry of Foreign Economic Relations and Trade (MFERT), and the official statistics of China's trade partners. We believe most of these can be attributed to differences between Western and Chinese accounting practices with regard to the categories of goods excluded or included in the trade statistics; the boundary of the Chinese statistical territory, valuation procedures, time periods to which the statistics relate, and definitions of countries to which trade is attributed. Data for trade partner exports to China are recorded at the time payments are made or (in lieu of cash payments) credits are drawn, and thus coincide with the Bank of China's payment data more closely than the MFERT data, which are recorded when the goods clear customs in China. Perhaps the major reason for the difference between the BOC's import data and trade partner's export data is the inclusion of technology and other invisibles in the former: the BOC probably cannot distinguish between payments for hard capital goods, which show up in the trade partner data, and payments for related services. [REDACTED] 25X1
- 3/ A Chinese deficit on freight and insurance appears difficult to reconcile with the Chinese claim that they carry over 70 percent of their foreign trade in Chinese ships. Moreover, the 13.5 million deadweight tons worth of ships in the Chinese fleet should be capable of carrying that much cargo. It is possible that the Chinese claim includes ships on time charter and that the Chinese fleet is operated very inefficiently. [REDACTED] 25X1

- 4/ We estimate that at the end of 1982, Chinese investments abroad were worth at least \$1,050 million, most of which is located in Hong Kong. Return on equity is estimated as 10 percent. We believe virtually all of these earnings are re-invested abroad. (Less than \$1 million was repatriated in 1980). A counterpart item appears separately in the capital account. [] 25X1
- 5/ The data reported to the IMF appear to be far too low, especially for the period 1979-81, when thousands of Chinese trade delegations went abroad in search of Western technology. No adjustments to the IMF data have been made, however. [] 25X1
- 6/ Chinese tax laws make it difficult for the foreign investor to repatriate capital in the early years of an investment. Hence we believe most of the profits for 1980-82 have been reinvested in China. [] 25X1
- 7/ Estimated as the difference between BOC's data for imports and trade partner data for exports to China. The levels appear to be consistent with the total value of whole plants contracted for during this period, less hard capital goods delivered. [] 25X1
- 8/ The division between long- and short-term capital is only approximate, especially for supplier credits. The IMF made estimates for short-term bank borrowings from gross flow data provided by the BOC. We believe that the stock of short-term bank assets and liabilities at the end of 1981, each amounted to perhaps \$1-1.5 billion. [] 25X1
- 9/ This item includes some World Bank bonds and bonds issued by foreign countries, purchased by the BOC. Although approval was given for certain Chinese entities to issue bonds abroad during 1981, no bonds were actually floated until 1982. [] 25X1
- 10/ Consists of credits from Belgium and Japan and credits from international financial institutions. [] 25X1
- 11/ Buyer credits refer to drawings by Chinese entities directly from foreign banks. In contrast, the Chinese use the term "deferred payments" to refer to supplier credits-- loans taken directly from foreign suppliers which may then be refinanced by the foreign supplier with his bank. [] 25X1
- 12/ Includes estimated credits from the Australian and Canadian Wheat Boards for financing of Chinese grain purchases. In 1981 the Chinese began paying cash for these purchases for the first time since 1961. Hence, in that year there was a significant net debit for supplier credits. [] 25X1

- 13/ Refers to credits for imported equipment and working capital under processing, assembling, and compensation agreements due to be repaid by the export of the product of the venture. This activity only started in 1980, although there may have been a very small volume of such transactions in 1979. [] 25X1
- 14/ "Non-BOC borrowings" refers to direct borrowing abroad by provinces, localities, and domestic enterprises--not through the BOC. [] 25X1
- 15/ Although Chinese law permitted foreigners to maintain accounts with the BOC beginning in 1980, this jump in foreign deposits, which the Ministry of Finance reported to the IMF, appears to be too large. [] 25X1
- 16/ These loans consist primarily of long-term low interest aid to LDCs. Grants are covered under unrequited transfers. []
- 17/ Negative (-) indicates an increase. [] 25X1

25X1

25X1

25X1

Table 2
China: External Debt by Type of Credit

(million US dollars)

	1978	1979	1980	1981	1982
STOCK OF OUTSTANDING DEBT (at end of year)					
Bonds					40
International Organizations					3
Government-to-government loans	0	0	11	31	367
Energy loans from Japan Ex-Im Bank	0	0	435	895	1,109
Buyer credits (guaranteed by foreign governments)	0	36	142	340	638
Supplier credits (Long-term only)	1,736	1,723	1,582	1,138	1,504
Borrowings from foreign commercial banks	752	3,316	3,805	2,440	1,376
Borrowings from the IMF:					
First Credit Tranche	0	0	0	524	496
Trust Fund	0	0	0	360	341
Total	2,488	5,075	5,975	5,728	5,874
DEBT-SERVICING¹ (during year)					
Principal	405	509	881	1,594 ²	1,747 ²
Interest	215	350	612	821	641
Total	620	859	1,493	2,415	2,388
As a share of:					
Exports	6.1%	6.4%	7.9%	11.2%	10.2
Current Account Earnings	5.3%	5.4%	6.8%	9.4%	8.6

¹ Includes interest charges but excludes principal on short-term bank borrowing.

² During 1981 and 1982 China pre-paid \$800 million and \$1,100 million in loans, respectively, which accounts for the abnormally large increase in debt-servicing. Excluding these prepayments China's debt service ratio (to exports) amounted to 8.6% and 5.5%, respectively.

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